



Treasury Inspector General for Tax Administration

THE NATIONAL RESEARCH PROGRAM STUDY OF S CORPORATIONS HAS BEEN EFFECTIVELY IMPLEMENTED, BUT UNNECESSARY INFORMATION WAS REQUESTED FROM TAXPAYERS

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Highlights

Highlights of Report Number: 2007-30-027 to the Internal Revenue Service Commissioner for Small Business/Self-Employed Division and the Director, Office of Research, Analysis, and Statistics.

IMPACT ON TAXPAYERS

The National Research Program study is updating compliance statistics associated with S Corporation tax returns, which numbered just over 3.6 million in 2005 and accounted for almost 60 percent of all corporate tax returns filed during the year. While the Internal Revenue Service (IRS) is actively involved in managing and monitoring the current study, there are areas that can be improved. This is important because the study results will assist the IRS in selecting and auditing S Corporation tax returns that have greater noncompliance risk; reducing the number of examinations in which the taxpayer correctly reported income and deduction items; and, ultimately, reducing taxpayer burden.

WHY TIGTA DID THE AUDIT

This audit was initiated because this is the first compliance study of S Corporation returns since a study was completed on Tax Year 1984 returns. Since then, there has been great growth in the number of S Corporations. In addition, our review was a follow-up of the effectiveness of corrective actions taken by the IRS for findings TIGTA identified during the review of the National Research Program study of individual taxpayers.

The overall objective of our review was to determine whether the IRS effectively implemented the National Research Program study of S Corporation Taxpayers.

WHAT TIGTA FOUND

The IRS effectively managed and monitored the implementation of the National Research Program study of S Corporations. The IRS included oversight

and feedback to ensure the study provides valuable data when completed.

While the IRS is actively involved in managing and monitoring the study, our review noted areas that can be further improved.

Some study results may not be complete, accurate, or provide information sufficient to update existing return selection formulas. These concerns could reduce the reliability of the study results. However, the IRS is taking or is planning actions that reduce these risks.

In addition, in 35 of 62 examination cases reviewed, revenue agents requested unnecessary information from taxpayers during the examinations. This included information that was already part of the examination case file or information that could have been obtained using research tools readily available to revenue agents. In addition, in 10 of the 35 cases, the revenue agent did not fully explain what information was being requested from the taxpayer.

TIGTA identified similar conditions in the review of the study of individual taxpayers. While the IRS had completed the corrective actions, the conditions still existed.

WHAT TIGTA RECOMMENDED

The Director, Examination, Small Business/Self-Employed Division, should issue a reminder to all examiners that requests for information need to be specific and tailored to each examination.

In their response to the report, IRS officials stated they will issue a reminder in the Technical Digest to all examiners that requests for information should be specific and tailored to the examination and that examiners need to consider taxpayer burden in preparing the requests.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730027fr.pdf>.